



Los Angeles District Office

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SBA
U.S. Small Business Administration

Your Small Business Resource

@www.sba.gov

1-800 U ASK SBA
(8 275 722)

Your Voice in Government

Recovering from Disaster

Contracting Opportunities

Growing Your Business

Financing Your Business

Starting Your Business

All SBA programs and services are provided to the public on a nondiscriminatory basis.

Questions You Need to Ask Yourself: Financing Basics

Before inquiring about financing, ask yourself:

- ✓ Do you need more capital or can you manage existing cash flow more effectively?
- ✓ How do you define your need? Do you need money to expand or as a cushion against risk?
- ✓ How urgent is your need? You can obtain the best terms when you anticipate your needs rather than looking for money under pressure.
- ✓ For what purposes will the capital be used?
- ✓ Is your business seasonal or cyclical? Seasonal needs for financing generally are short term.
- ✓ How strong is your management team? Management is the most important element assessed by money sources.

Most importantly, how does your need for financing mesh with your business plan?

Borrowing Money

To successfully obtain a loan, you must be prepared and organized. You must know exactly how much money you need, why you need it, and how you will pay it back. You must be able to convince your lender that you are a good credit risk.

Remember: Banks make money by lending money.

Borrowing Money:

Key Points to Consider

- **Ability to Repay/Capacity**
- **Credit History**
- **Equity**
- **Collateral**

Note: The value of collateral is not based on the market value. It is discounted to take into account the value that would be lost if the assets had to be liquidated.

How Will the Loan be Reviewed?

- ✓ Have you invested savings or personal equity in your business totaling at least 20 to 25 percent of the loan you are requesting? Remember, lender will not finance 100 percent of your business.
- ✓ Do you have a sound record of credit-worthiness as indicated by your credit report and work history.
- ✓ Do you have sufficient experience and training to operate the business successfully?
- ✓ Have you prepared a loan proposal and business plan that demonstrate your understanding of and commitment to the success of the business?
- ✓ Does the business have sufficient cash flow to make the monthly payments?

Common Required Lender Documents

- Purpose of loan
- Business history*
- 3 years of financial statements*
- Schedule of term debts*
- Aging of accounts receivable and payable*
- Projected balance sheet**
- Lease deals
- Amount of owner investment in business
- Projections of income, expenses and cash flow
- Signed personal financial statements
- Personal résumés

* for existing businesses **for new businesses

Credit Questions

Your bank is in business to make money. Consequently, when a bank lends money it wants to ensure that it will be paid back. The bank must Consider:

- **Capacity** - The lender will want to know exactly how you intend to repay the loan and your contingent sources of repayment.
- **Capital** - The money you personally have invested in the business. The larger your personal investment, the more likely you will do everything in your power to make the business successful.
- **Collateral** - Additional forms of security you can provide the lender. If the business cannot repay its loan, the bank wants to know there is a second source of repayment.

*Note: SBA is NOT a Collateral lender it is a Cash-flow lender.

- **Conditions** - The intended purpose of the loan.
- **Character** - The personal impression you make on the potential lender.

Key Questions a Banker Will be Seeking to Answer:

1. Can the business repay the loan?
2. Can you repay the loan if the business fails? (is collateral sufficient to repay the loan?)
3. Does the business collect its bills?
4. Does the business pay its bills?
5. Are the officers committed to the business?
6. Does the business have a profitable operating history?
7. Are sales growing?
8. Does the business control expenses?
9. Are profits increasing as a percentage of sales?
10. Is there any discretionary cash flow?
11. What is the future of the industry?
12. Who is your competition and what are their strengths and weaknesses?



Key Questions a Banker Will be Seeking to Answer (continued):

Business Description

- History and nature of the business - details of what kind of business it is, its age, number of employees and current business assets
- Ownership structure - details on your company's legal structure

Management Profile

- Develop a short statement on each principal in your business, provide background, education experience, skills and accomplishments.

Market Information

- Clearly define your company's products as well as your markets.
- Identify your competition and explain how your business competes in the marketplace.
- Profile your customers and explain how your business can satisfy their needs.

Personal Financial Statement

SBA Form 413

8.5 x 11 in 1 of 2

ASSETS (Omit Cents)		LIABILITIES (Omit Cents)	
Cash on hand & in Banks	\$	Accounts Payable	\$
Savings Accounts	\$	Notes Payable to Banks and Others	\$
IRA or Other Retirement Account	\$	(Describe in Section 2)	
Accounts & Notes Receivable	\$	Installment Account (Auto)	\$
Life Insurance-Cash Surrender Value Only	\$	Mo. Payments \$	
(Complete Section 8)		Installment Account (Other)	\$
Stocks and Bonds	\$	Mo. Payments \$	
(Describe in Section 3)		Loan on Life Insurance	\$
Real Estate	\$	Mortgages on Real Estate	\$
(Describe in Section 4)		(Describe in Section 4)	
Automobile-Present Value	\$	Unpaid Taxes	\$
Other Personal Property	\$	(Describe in Section 6)	
(Describe in Section 5)		please enter Automobile-Present Value	\$
Other Assets	\$	(Describe in Section 7)	
(Describe in Section 5)		Total Liabilities	\$
Total	\$	Net Worth	\$
		Total	\$
Section 1. Source of Income		Contingent Liabilities	
Salary	\$	As Endorser or Co-Maker	\$
Net Investment Income	\$	Legal Claims & Judgments	\$
Real Estate Income	\$	Provision for Federal Income Tax	\$
Other Income (Describe below)*	\$	Other Special Debt	\$
Description of Other Income in Section 1.			

Financial Statements

✓ Balance Sheet

- ✓ The balance sheet provides a snapshot of the business's assets, liabilities and owner's equity for a given point in time.

✓ Income Statement

- ✓ A company's income statement is a record of its earnings or losses for a given period.

✓ Cash Flow Statement

- ✓ Indirect Method (Alternate is the Direct Method)
Cash flow statements will help estimate the cash needs of the business in the months to come.

Methods of Accounting

Cash Basis Method:

This is what the name implies; you recognize income when you receive the cash and you recognize expense when you pay the bill.

Accrual Method:

Here you match revenue with expense regardless of when the cash may or may not be collected.

Credit Reports

This central site allows you to request a free credit report once every 12 months from each of the nationwide consumer credit reporting companies: Equifax, Experian and TransUnion.
<https://www.annualcreditreport.com/cra/order>

Request your Credit Report by Phone

Call 1-877-322-8228 to request your credit reports by phone. You will go through a simple verification process over the phone. Your reports will be mailed to you.

Dun & Bradstreet
dnb.com/us



TransUnion
transunion.com



Experian
experian.com



Equifax
equifax.com



Financial Assistance Programs

Programs	Loan Size	Eligible Uses	Comments
7a	Maximum \$2.0M	W/C, expansion, business acquisition, M&E, F&F, Inv, RE purchase, Int'l Trade	R/E max term 25 yr term,
504	Range from \$1.5M to \$4.0 M	R/E purchase, M&E	Fixed rate, 10% down required, term 25 yrs
SBAExpress	Maximum \$350,000	L/C, W/C, M&E, F&F, Inv	Max term is 7 yrs.
SBIC	\$250,000 to \$1,500,000	Seed capital to MBO/LBO/Acquisition	Investment can go higher if necessary.
Prequalification	Maximum \$250,000	W/C, bus. acquisition, M&E, F&F, Inv, R/E purchase	Request is reviewed by SBA
International Trade	Maximum \$2.0M	Construct, equipment, modernize and expand, etc.	Collateral must be located in US

Helpful SBA URL Sites

<http://www.sba.gov/financing/index.html>

The screenshot shows a Microsoft Internet Explorer browser window displaying the SBA Financing website. The browser's address bar shows the URL <http://www.sba.gov/financing/index.html>. The website header features the SBA logo and the text "United States Small Business Administration". Below the header, there is a navigation bar with links for "Starting", "Financing", "Managing", "Business Opportunities", and "Disaster Recovery". The "Financing" link is highlighted. The main content area is titled "Financing Your Business" and includes a search bar, a "Hot Items for this area" section, and a "Gulf Opportunity Pilot Loan Program (GO Loan)" link. A sidebar on the left contains links for "About SBA", "Ask SBA", "Business Laws & Regulatory Assistance", "Training", "News & Events", "Subscriptions", "FAQs", "Counseling", "Library", and "Local Resources". The main content area also features a "Basic Financing Topics" section with links for "SBA's Role", "Financing Basics", "Estimating Costs", "Personal vs. Business", "Grant Resources", "Capital for Growth", "Equity Financing", "Small Business Lenders", "Understanding Financial Statements", and "Eligibility & Preparation". The bottom of the browser window shows the Windows taskbar with various icons and the system clock displaying 8:00 AM.

Small Business Administration | Financing - Microsoft Internet Explorer provided by SBA

File Edit View Favorites Tools Help

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Address <http://www.sba.gov/financing/index.html> Go Links >>

United States Small Business Administration GO

En Español

Select a Custom View: [Starting](#) [Financing](#) [Managing](#) [Business Opportunities](#) [Disaster Recovery](#)

☒ **Financing Your Business** [SBA.gov // Financing Your Business](#)

Hot Items for this area

Smart Links

Mail this page to a friend

[Gulf Opportunity Pilot Loan Program \(GO Loan\)](#)

The Basics

If you want to generate capital for your business, it pays big dividends to do your homework. Learn about raising capital for your business.

Basic Financing Topics

- [SBA's Role](#)
- [Financing Basics](#)
- [Estimating Costs](#)
- [Personal vs. Business](#)
- [Grant Resources](#)
- [Capital for Growth](#)
- [Equity Financing](#)
- [Small Business Lenders](#)
- [Understanding Financial Statements](#)

Eligibility & Preparation

Obtaining a loan requires knowing the facts and solid preparation. Good

Financing Eligibility Topics

- [Credit Factors](#)
- [Borrowing Money](#)

Start | Document13 - ... | Inbox - Micros... | Small Busine... | JPL Pres 3-8-0... | 8:00 AM

Basic 7(a) Loan Program

- A key concept of the 7(a) guaranty loan program is that the loan actually comes from a commercial lender, not the Government.
- All owners of 20 percent or more are required to personally guarantee SBA loans.
- A prepayment fee is assessed during year 1-3 ranging from 5% to 1%
- SBA guarantee is 75% for loans of \$150K< and 85% for loans above \$150K
- Maximum loan amount of \$2 million dollars. SBA's maximum exposure is \$1.5 million.
- Loan maturities range from seven (7) years to twenty-five (25) years for real estate.
- Interest rates may be fixed or variable: Fixed rate loans must not exceed Prime Plus 2.25 percent, Variable rates are pegged to prime.
- Fees associated with SBS loans range from 2% - 3.5% of the loan amount.

504 Loan Program

- Long-term, fixed-rate financing
 - Up to \$1.5 million in SBA-backed debentures
 - Up to \$2 million for 504 loans that meet public policy goal
 - Up to \$4 million for 504 loans to small manufacturers*
 - SBA debenture guaranty of 40%
 - Must create or retain one job for every \$50,000 of SBA debenture proceeds
- * Small manufacturers- primary business classified in sector 31,32 or 33 of NAICS and all of its production facilities located in the U.S.



SBAExpress Loan Program

- Maximum loan amount of \$350,000.
- Loan maturities range from seven (7) years to twenty-five (25) years for real estate.
- Interest rates vary from Prime Plus 4.5 to 6.5%.
- SBA guarantee is 50%
- 36 hour turnaround time.
- SBAExpress allows revolving lines of credit up to 7 years with maturity extensions permitted at the outset.

Prequalification Loan Program

- The Prequalification Loan program uses intermediary organizations to assist prospective borrowers in developing viable loan application packages and securing loans.
- Business Development Centers serving as intermediaries do not charge a fee for loan packaging.
- To be eligible, applicant business must be 51% owned by a female, minority, handicapped or veteran.
- If SBA decides the application is eligible and has sufficient credit merit to warrant approval, it will issue a commitment letter on behalf of the applicant. The commitment letter indicates SBA's willingness to guaranty a loan made by a lender under certain terms and conditions.
- Maximum loan amount for this pilot program is \$250,000
- Interest Rates, Maturities, Collateral policy, and Guaranty percentages all follow the standard 7a loan program.



International Trade Loan Program

- If your business is preparing to engage in or is already engaged in international trade, or is adversely affected by competition from imports; your business is eligible.
- Loan may be used to acquire, construct, renovate, modernize, improve or expand facilities and equipment to be used in the United States to produce goods or services involved in international trade or the refinancing of existing indebtedness that is not structured with reasonable terms and conditions.
- Maximum gross amount (\$2 million) and SBA-guaranteed amount (\$1.5 million)
- SBA can guaranty from 75% to 85% of the loan amount.
- Only collateral located in the United States, its territories and possessions is acceptable as collateral under this program.
- **Note: Other IT loan programs include;** Export Working Capital Program (EWCP) designed to provide short-term working capital to exporters.

Small Business Investment Company (SBIC) Loan Program

- SBIC exist to supply equity capital, long-term loans and management assistance to qualifying small businesses.
- SBIC funds can be used for financing growth, modernization and expansion.
- SBIC provide equity capital to small business concerns, and may do so by purchasing the small business concern's equity securities.
- Loan may have a maturity of no more than 20 years, although under certain conditions the SBIC may renew or extend a loan's maturity for up to 10 years.
- SBICs may only invest in “small businesses” defined as: net worth less than \$18 million and prior two years’ average after-tax income less than \$6 million.
- URL: www.sba.gov/INV Telephone: (202) 205-6510

SBIC Program Success Stories

- Apple
- Federal Express
- Intel
- OcteL
- Staples
- Gymboree
- Callaway Golf
- Outback Steakhouse
- Telesis
- Midway Airlines
- Teledyne
- Compaq Computers
- Oracle
- Sybase
- America Online
- Peoplesoft
- Amgen Inc
- Costco Wholesale Corp.

(SBIC) Loan Program (Con't)

- **Investment Types**
 - **Seed Financing**
 - **Start-Up**
 - **Early Stage**
 - **Expansion Financing**
 - **Later Stage Financing**
 - **MBO/LBO/Acquisition**

(SBIC) Loan Program (Con't)

- **The venture capital firm evaluates a small business seeking funds differently than banks: Banks look at its immediate future, but are most heavily influenced by its past. Venture capitalists look to its longer run future. Most importantly, venture capital firms are owners.**
- **Venture capital financing is not inexpensive for the owners of a small business. The partners of the venture firm buy a portion of the business's equity in exchange for their investment.**
- **Most venture capital firms are interested in investment projects requiring an investment of \$250,000 to \$1,500,000.**
- **Most venture capital firms' investment interest is limited to projects proposed by companies with some operating history, even though they may not yet have shown a profit.**
- **Final Objectives. Venture capital firms generally intend to realize capital gains on their investments by providing for a stock buy-back by the small firm, by arranging a public offering of stock of the company invested in, or by providing for a merger with a larger firm that has publicly traded stock.**

SBA Requirements

- ✓ Good character
- ✓ Management expertise and commitment to succeed
- ✓ Reasonable personal contribution or business equity
- ✓ Feasible business plan
- ✓ Sufficient collateral
- ✓ Ability to repay loan from projected operating cash flow

Eligibility Requirements

Businesses must:

- Be operated for profit
- Not exceed size standards
- Not engage in:
 - Lending
 - Real-estate speculation
 - Investments
 - Business of a prurient and sexual nature

Use of Proceeds

7(a) loans may be used to:

- Expand or renovate facilities
- Buy machinery, equipment, fixtures, buildings and land for business
- Working capital
- Refinance existing debt (with compelling reason)
- Finance seasonal lines of credit (CAPLINE)
- Construct commercial buildings

Terms

Flexible maturities:

1. Up to 10 years for working capital
2. Up to 25 years for fixed assets:
 - a. Real estate
 - b. Construction
 - c. (Special) Equipment

Interest rates:

1. Negotiated between borrower and lender
2. Cannot exceed prime rate plus 2.75%

Size Standards

- Manufacturing — 500-1,500 employees
- Wholesaling
 - ✓ 100 employees for financial assistance programs
(500 employees for contracting assistance programs)
- Services
 - ✓ \$4 million to \$25.0 million in annual receipts, or
 - ✓ 1, 500 employees
- Retailing
 - ✓ \$6 million to \$24.5 million in annual receipts
- General and heavy construction
 - ✓ \$17 million to \$27.5 million in annual receipts
- Special trade construction
 - ✓ \$11.5 million in annual receipts
- Agriculture
 - ✓ From \$750,000 to \$9 million in annual receipts

Collateral

- Personal guaranties from principals owning 20 percent or more of subject business
- Liens on personal assets may be required
- Loans are not declined for insufficient collateral

Not All Money is the Same

There are two types of financing: i) Equity ii) Debt

Equity Financing (SBIC Programs)

Comes from your personal saving, and others such as friends, relatives, employees, customers, industry colleagues, factoring and venture capital.

Debt Financing (7a Programs and 504)

Sources for debt financing include: banks, savings and loans, commercial finance companies, and the U.S. Small Business Administration (SBA) are the most common.

